

Welsh Affairs Committee

Oral evidence: Business Support in Wales, HC 567

Wednesday 28 February 2024

Ordered by the House of Commons to be published on 28 February 2024.

[Watch the meeting](#)

Members present: Stephen Crabb (Chair); Virginia Crosbie; Ruth Jones; Ben Lake; Robin Millar, Beth Winter.

Questions 1 - 77

Witnesses

I: Rhian Elston, Investment Director, Development Bank of Wales; Giles Thorley, Chief Executive Officer, Development Bank of Wales; and Ken Cooper, Managing Director, Venture Capital Solutions, British Business Bank.

II: Professor Dylan Jones-Evans OBE, Founder of UK Start Up Awards and UK Fast Growth 50 Index; and Jane Wallace-Jones, CEO and Founder, Something Different Wholesale Ltd.

Examination of witnesses

Witnesses: Rhian Elston, Giles Thorley, and Ken Cooper.

Q1 Chair: Good morning. Welcome to this session of the Welsh Affairs Committee. Today we are looking at support for businesses in Wales and specifically access to finance. We are delighted to be joined for the first panel of this session by Ken Cooper, who is Managing Director of Venture Capital Solutions at the British Business Bank. We are joined by Rhian Elston, Investment Director from the Development Bank of Wales, and by Giles Thorley, who is the Chief Executive Officer for the Development Bank of Wales.

Perhaps I can start the discussion this morning by asking a fairly general question. All of us are familiar with the business landscape in our own individual constituencies across Wales. We were all involved in supporting our small businesses through the Covid experience and helping them get access to supporting funds. We have lots of partial bits of information, but you obviously are in positions where you see a more strategic picture of the funding landscape.

Perhaps we can start the discussion by asking you to give your thoughts on the funding challenges for businesses across Wales, and where you think there has been some improvement in recent years. That would be a



HOUSE OF COMMONS

useful starting point for the discussion. Ms Elston, would you like to start?

Rhian Elston: Yes, no problem. There are a couple of things that we are seeing—and it is quite timely because we have a report that is due to come out shortly that surveyed a number of businesses across Wales. What that showed us was around 50% of businesses in Wales were accessing finance. That gives you a good benchmark as to where they are at, at the moment, and as to what they are looking for. Around 20% of those cited barriers in terms of access to finance.

When you look across the finance landscape, you need to consider, yes, there are some barriers for individuals looking to access finance, but there is also a role for us to play in terms of increasing the desire for businesses to access finance and what they can do with that. Because what you want to do is move that 50% up so that they look to seek more investment and look to make that investment in their business, and hopefully push forward with growth.

The other area that we have experienced is how the banks operate in the market in Wales. It has probably been no surprise to you that what you are seeing with your constituent members is that the banking market has changed. There is no longer that personal relationship with the bank manager. We are certainly finding that businesses that we talk to do not necessarily have that single point of contact that they can go to. We are seeing more challenger banks in Wales, so more of the alternative funders coming through. But they do tend to look at structures that are perhaps more short-term loans for businesses. We have seen an increase in demand for more patient capital, longer terms, either loan investment or hopefully equity investment into those businesses as well.

Q2 **Chair:** You raise a good point about the banks because, certainly when I talk to the main banks, they all seem to talk a very strong game about funding small businesses in the part of Wales that I represent. Is that something that you would concur with in terms of the picture that you get? Are the main banks getting more money out of the door to Welsh businesses at this time?

Rhian Elston: I think the picture that we see is that businesses will often struggle to find the right person to talk to, particularly if they are a smaller business, and to access the right individual in the bank. We certainly see sectors where perhaps the banks are less keen to invest. An example at the moment is we are seeing quite a few care homes coming to us for funding, as that is a sector that the banks are not particularly keen to invest in at the moment. They see that as a little too high risk for them. That is an area that we have been able to support. There will be certain pockets of sectors that they are just not comfortable with and they will come to us for funding.

Q3 **Chair:** Mr Cooper, what is the picture that you see in Wales?

Ken Cooper: I think that small businesses in Wales suffer the same as small businesses across the country. I would not disagree with anything



HOUSE OF COMMONS

Rhian said. The reason we have put the investment fund for Wales in place is because we have done the analysis, and we see those gaps. On your question about bank lending, the main banks do a good job for the majority of businesses but where they suffer, perhaps, is that they have to lend on historic performance.

It does go back to the fact that there is no branch manager that can look at your business, look at your plans and make that decision. Our funds have that management element in them but in general the difference is scale, not the types of problem that people face.

There are parts of Wales, in particular, that are much more difficult to reach for venture capitalists that might be based in London. That is why we are encouraging funds to operate in Wales and actually be in the places where they make an investment. Again, I would absolutely agree with that. We see a high level of reluctance to take on external finance. We have had analysis that shows that businesses would rather not grow than borrow money.

I started doing this about 20 years ago now. We used to talk a lot about equity aversion, where businesses did not want to sell a part of the business. They did not want to give up a bit of control. Nowadays we are seeing debt aversion as well. That is damaging for all of us because, if companies that can grow do not grow, our economy is smaller as a result.

Q4 **Chair:** That phenomenon that you are describing, is that peculiar to Wales or is that common across the board? Are there differences that are Welsh-specific that you are seeing?

Ken Cooper: No. It is the same issues sometimes exacerbated a little bit by geographic difficulties; connections getting from Llandudno to Cardiff, which we were trying to do the other day.

Chair: Almost impossible, isn't it?

Ken Cooper: It is not that easy. There are issues like that but within the businesses, no, I think the issues are the same.

Q5 **Chair:** There is not a particular lack of ambition—for want of a better phrase—on the part of Welsh small businesses in terms of their growth aspirations and willingness to seek out funding for that?

Ken Cooper: I do not think we are seeing that any more than we would see it in, say, the north of England or the midlands.

Q6 **Chair:** That is very helpful. Thank you. Mr Thorley, since the establishment of the Development Bank of Wales, what is your sense of how it has changed and adapted to the environment around it? How would you describe the trajectory that you are on at the moment?

Giles Thorley: We have changed quite dramatically, because I think originally there was an expectation that the organisation would focus



HOUSE OF COMMONS

entirely on SME finance, and that is over half of the activity that we do. Since then, we have also taken on responsibility for other areas.

One is green finance: we have two green finance projects and a number in train. Another is residential and commercial property: we have built over 1,600 properties and invested over £300 million in 250,000 square feet of commercial space in Wales. We have a local energy fund. We have introduced a management buyout fund for smaller management buyouts, well below the threshold that is considered for the large venture capital and private equity firms.

I want to raise one thing that you mentioned earlier that I think is relevant. The banks are doing a good job, but we commissioned a survey with the British Business Bank, which will be published next month, and 500 businesses in Wales, across all of Wales, in terms of the sources of finance: 19% their funding was overdraft, 22% was credit card, 19% was Covid loans. Conventional finance or more stable secure finance is everything else. Other loans are only 12% of the total sought.

While the banks are doing a lot of good, some of the funding is very insecure, very short term. We have seen a number of occasions where banks have withdrawn overdrafts on a relatively arbitrary basis. Given that that is one of the largest areas of funding, it is a concern.

Q7 Chair: That is certainly something I think many of us have seen in our own constituencies: businesses telling us that banks have called in the overdraft and changed the terms or refused them or something at short notice, which has significantly affected their ability to plan and execute what they want to do.

Giles Thorley: To go back to your point, I am happy to write to each of the members of the Committee, but we have invested in every single constituency in Wales. We have built houses. We have built 62 houses in Virginia's constituency: our largest single housing project. We have offices in Llandudno, Wrexham, Dafen, Newtown and Cardiff, and we have people on the ground across the whole of Wales.

Q8 Chair: In terms of the point about the posture of the mainstream banks in Wales, that picture that I think you just alluded to of short-term changes in terms that affect businesses. Is it fair to say that the banks have become more capricious in the way that they—

Giles Thorley: I think they have just changed their model. We monitor this—but this is ad hoc, anecdotal feedback. But the threshold at which small businesses receive actual physical support and a support centre is going up and up and up. In some banks that is £5 million-worth of turnover, some is even higher. Our average loan is around £300,000. We are in a gap in the financing market, which is well below where many of the banks are operating.

If you are seeking funding from a bank in that circumstance, it is going to be online, it is going to be online banking, it is going to be algorithmic. As



Mr Cooper said, that will therefore very much depend on that business meeting the algorithmic requirements. If it does not fit, the answer is “No” and there is no recourse to anybody to verify why that is the case.

Q9 Chair: Before I start bringing in my colleagues, can I throw in one extra question, which is about universities in Wales? We had all of the university vice-chancellors in front of us recently. The specific point we were talking about then was the slightly peculiar dependency among Welsh universities on funding that was from European funding streams, and the difficulties that they are facing with those funds coming to an end.

Do you see much spinout from the Welsh universities? Are you actively involved in supporting businesses? Because it struck me that maybe this is something we need to get better at in Wales—seeing our universities become drivers of innovation and growth and seeing some successful businesses spinout from these institutions.

Giles Thorley: I will pass on to Rhian in a minute to talk about specifics, but we have spoken to all of the universities in Wales. We spoke to them on two bases. First, we wanted to know exactly that point about how spinouts could be supported. Separately, we have worked with the universities on our economic research organisation, Economic Intelligence Wales. Bangor Business School and Cardiff Business School are members of that committee, but we spoke to all the other universities about participating in that.

From my perspective, the difficulty is that the arrangements that the universities have to support academics and/or students with developing ideas are different. There is no consistency in the sharing arrangement of IP, and so on—that could be an area that could be focused on—as a result of which there are peaks and troughs.

For a number of years Swansea was incredibly productive and a lot of innovative businesses were coming out of Swansea that we supported. That has waned. Cardiff is starting to get its act into gear. There are very big differences and there has not been a consistent approach. What we are trying to do is reinvigorate that and act as a catalyst for those universities to have at least a consistent support in the finance side.

Rhian Elston: It is an interesting area and something that we want to do more in. We hosted a roundtable with all of the universities and their tech transfer teams to understand what the barriers were. The interesting point is the whole session focused on the barriers other than the funding. It was all around: how do we incentivise the academic to move away from the research that they do into want to spin out a company? As Giles has mentioned, how do we standardise some of the IP arrangements with the university and the investment agreements? How do you share knowledge between the universities? Swansea is up there in terms of the number of spinouts. But Cardiff have probably spun out more businesses that have been more successful in terms of raising funding.



HOUSE OF COMMONS

There is lots of work to be done there but I think what was definitely surprising for me is that we did not get to the funding part of the problem. It was all about how do we get the business and the academic and all of the ingredients right to spin out in the first place.

The only other thing I would say on universities, which I think is another important angle for us, is to ask how do we support R&D activity in our businesses in Wales, which universities can also support. It is not just about spinout opportunities. How do we increase the amount of R&D that is being done in our Welsh businesses, and how do we increase that innovation, which helps with things like the productivity problem in Wales as well?

Chair: Thank you, that is helpful scene setting.

Q10 **Beth Winter:** Bore da. Thank you for coming this morning. My question is to Rhian. How has the Development Bank of Wales succeeded in filling the gap of private sector funding for businesses?

Rhian Elston: I think it comes back to the point that the role we play is exactly in that gap. We have to be very careful. We are not here to take the place of the private sector. The private sector is providing the lion's share, particularly of the debt funding in Wales. Our role there is to provide funding where the private sector is not able to give support. That could be down to the deal size being too small for them. As Giles alluded to, on some deals they will not look at the smaller deals that we do. It could be the risk is too high. It could be the lack of security that is available.

That is the role that we play, is to ensure that we fit that gap. And we flex, so we have done more—demand for us at the moment is very high on debt finance because the banks have pulled back in that area. We are seeing a lot of debt applications coming through. We will move depending on where the private market is.

Q11 **Beth Winter:** Can I just ask one supplementary? We have done a lot of work in my constituency, Cynon Valley, on developing community wealth building. We commissioned a report on Cynon Valley post-Covid. We are looking at the moment to set up a development trust. How do you support co-ops and mutuals, the development trust?

Rhian Elston: We can do that. We tend to outsource that part of it to specialist providers in that space. We work with two providers across Wales who have the expertise of dealing with a wide range of social enterprises. We provide the funding, but they are the conduit to the social enterprise investment.

Beth Winter: Who are they, sorry?

Rhian Elston: WCVA and Landsker are the two that have the contract with us at the moment.

Q12 **Beth Winter:** Do you look at using local government pension scheme



funds?

Rhian Elston: Not specifically on that area. We have a local authority pension fund invested in one of our funds, so, the management succession fund that supports employee buyouts. When a business is looking to sell on to their existing management team we can support that with an equity fund.

Beth Winter: Why not do co-ops and mutuals?

Rhian Elston: I think for the pension funds, it is about trying to get the balance for them, if they need the commercial return and they need the impact that we are able to deliver for them. That was the first relationship with the local authority pension funds that we have been able to successfully get them into that fund, but hopefully it is the start of the relationship. We need to see where we go from there with them. They are very interested in the local impact, which is obviously where these kind of projects can deliver quite significantly for them.

Q13 **Beth Winter:** You are committed to the community development?

Rhian Elston: Definitely. The local energy fund that we mentioned earlier, that is absolutely supporting social enterprises to build local energy projects. We have backed a number of solar projects and some wind projects where it is local community groups taking that project forward, and we have provided them with the funding.

Q14 **Ruth Jones:** Mr Thorley, when the Development Bank of Wales was established there were goals and obviously a remit was set out. How long ago was that? Excuse my ignorance there.

Giles Thorley: I joined in April 2016, and we launched the Development Bank in October 2017. We are coming up to just over six years.

Q15 **Ruth Jones:** In terms of your original goals and your remit, how are things doing?

Giles Thorley: The total impact that we have made in that time is over £1.5 billion, of which £694 million was loans. We have supported over 3,600 businesses, with 39,000 jobs created, supported, or preserved. We have built 1,644 houses in Wales, all with small and medium-sized housebuilders: a number in your own constituency in Newport. I mentioned the 290,000 square feet of commercial property space. We now have two green energy funds.

We have also provided solutions for other conundrums. For example, we provided a solution that we developed to support those people in properties that are blighted by the cladding issue. In terms of targets, we have met or exceeded all of the targets that we were set. We have continued to grow, and we were expecting to invest around £80 million a year, and we are now investing around £120 million a year in Wales.

Q16 **Ruth Jones:** That is helpful. Looking at targets, do you have specific



HOUSE OF COMMONS

targets for the setting of job creation and job security that can be measured against and are they appropriate, do you think?

Giles Thorley: It's a good question. The answer is we do. We have specific targets for jobs created and jobs safeguarded. But we do not operate specifically to those targets. I will give you an extreme example. We could quite happily support a large call centre, for example, where a very large number of employees are on relatively low pay, with a relatively insecure fund, and the answer is we do not focus on that as the solution to the target. We operate on the basis of investing across Wales, across all sectors. The target is an output, not an input.

As a result of this, we do collect data from our customers, including average pay rates and diversity, we continue to monitor the number of people employed in the business, and so on. We are increasingly adding green or decarbonisation in environmental measures as well into the mix.

Ruth Jones: Thank you. That is very helpful.

Q17 **Robin Millar:** Just a quick supplementary. You have mentioned housing a couple of times. What percentage of your portfolio is housing or housing-related business?

Giles Thorley: On an annual basis, just under 40% of the investment is in property. We have three property funds in Wales. We have the residential property fund. We have what is called the stalled sites fund—which I will explain in a second—and then the commercial property fund. This comes back to something that Rhian said. As part of our remit, we are constantly looking at the market to see where there are gaps in the market.

We found, almost as a surprise I would say, that one of the consequences of the financial crisis was that the commercial banks stopped lending to small and medium-sized property developers. The reason for that is that the capital adequacy rules changed, and it became extremely prohibitive for the banks to invest in those organisations.

We are not talking about the Redrows, the Barratts. We are talking about the small local developer who is probably building 10 to 20 houses a year. What was happening was those developers had no funding. What they were doing was they were funding the entirety of their investment themselves. Until they built out a project, they could not generate enough income to go and buy the next site to develop the second site. It was a very staccato approach to development.

Q18 **Robin Millar:** If I can just interrupt you there. As I understand it, in property development—let's get straight to the point—very often the development is a shell company set up for the purpose of a development. Are you investing into those or are you investing into a growing business, a growing property development business, which is growing in size? I am not educated in these things so please correct me if I am wrong, but it seems 40% is quite high in terms of a business investment portfolio.



Giles Thorley: It is an interesting model because the loans are relatively short term. We are only funding the development, the construction part of the process. We are funding it at a valuation that is broadly in line with the cost of that construction. When we start out with a developer—so if a developer came to us we had never dealt with before, we would have relatively strict criteria in terms of pre-sales of the units off plan, for example. As we have grown and we have developed with the developers, our willingness to support them to grow and do more projects has grown with it.

There is an extraordinary development in Swansea that I am going to see next week, which is one of our developers who started building a small group of houses and is now developing a multi-use site in the centre of Swansea.

Q19 **Chair:** Following up very quickly, and then I will bring in Virginia Crosbie. Given the proportion of the activity that is geared towards property, given what you said earlier in your remarks about headcount and employment and protecting employment, does that not leave an important gap in the innovative tech-related activity that isn't about creating jobs on the ground? It is that innovation that we need more of in Wales. But because it does not give you a big headcount figure in terms of new jobs created and it is not about bricks and mortar—like building homes in coastal areas of Wales—are you sure that you are getting into that space and supporting Welsh business?

Giles Thorley: Absolutely. To be clear, these are discrete activities. We also have a tech seed fund, a tech ventures fund, and an Angel Co investment fund. We can be involved in a business from a very, very early stage right the way through their life and, in fact, Creo Medical, a business that we backed at a very early stage is now a listed company on the stock exchange and one of our largest investments, so there is no restriction on our ability to do that. For example, in FinTech Wales around half the members have received funding from us. Rhian, you might want to give some other thoughts on it.

Rhian Elston: Absolutely. To your impact point there, as to how you measure that, that is something we grapple with given the breadth of activities that we do, and investing in those tech businesses has other impact measures. They create jobs and they tend to create those higher quality jobs, so we are back to measuring the average salary of those jobs. They also have a big impact in terms of the private sector leverage that comes along, the investment that we do. That is the biggest area where we can have an impact in that for every pound that we are putting in, we are getting more leverage in from the private sector.

A big part of our role is bringing in other fund managers into Wales. We have seen a big uptick—there are a couple of deals that we have done with corporate investors. We have invested alongside Admiral's venture team. There was a deal based in Cardiff where Schlumberger invested alongside us with its corporate arm. There are different metrics in that



HOUSE OF COMMONS

side. But it is absolutely a focus of ours to try and increase. I think because we can do the seed, we can do the angel investment and then we can follow on with funding series A and beyond. That means we cover the full spectrum.

Chair: Thank you very much. Time is up against us, so we are going to have to pick up the pace a bit.

Q20 **Virginia Crosbie:** Noted. Mr Cooper, why was it felt necessary to create a dedicated investment fund for Wales? That is the first question.

Ken Cooper: The British Business Bank's first foray into regional funding was the Northern Powerhouse Investment Fund. That has performed very well. What we have learned from that is that it is necessary to have boots on the ground to make those investments—we are not aiming at substandard businesses. We are aiming at businesses that just are not finding access to funding because of where they are and perhaps a little bit because of the ambition around that.

By having a dedicated investment fund for Wales, we can focus our marketing to encourage companies to look for external finance. We can make sure we target our fund managers to cover the area. Although these are commercial funds, they are expected to make a return. The difference between these and any other commercial funds is that we do not pay the fund manager all their fees unless they are meeting those targets of getting out and investing in the regions, investing in a certain number of smaller companies and newer companies. That is why it is necessary to do that.

British Business Bank has a number of programmes that operate across the UK. Wales gets about its share of most of those once you have taken London out of the mix obviously. But to have a fund focus that can do its marketing, that we can do our promotional activities; so we have spent the last week going around Wales promoting the availability of this funding.

Q21 **Virginia Crosbie:** We have the British Business Bank, so the Welsh Investment Fund, does this represent finance that was not previously available to people in Wales, or is it just a case of making it much more Wales centric?

Ken Cooper: No, this is new funding. It was awarded two spending reviews ago, I think. It takes a while to put these things into operation, but this is brand new funding.

Q22 **Virginia Crosbie:** How does it work regionally across Wales? If people have had finance from the British Business Bank, does it preclude them from getting this investment?

Ken Cooper: No, because this is commercial funding it does not suffer from any of those restrictions that used to come around accumulating. No, we are quite happy if we can make an early investment from one



HOUSE OF COMMONS

fund that then gets picked up by another fund or another source of funding.

Q23 Chair: Is it not a case for just taking the money that you have and putting it with the Development Bank of Wales? Are you doing fundamentally different things or slightly overlapping or just duplicating each other's work?

Ken Cooper: We worked very closely with the Development Bank of Wales when we were putting this funding together. There may be some small overlaps, but I do not see those as particularly a bad thing. As an example, when we did the Northern Powerhouse Fund we would deliberately have overlap between our fund managers because for a small business that goes to one fund manager and gets a rejection there was otherwise nowhere else to go.

What we are doing is building the market; we are building provision. We are introducing private sector fund managers who are managing our funds, and while there might be some overlap at the margin our analysis showed that if we could overcome the search costs there are plenty of opportunities in Wales to invest much more money than we have. Part of overcoming those search costs is having more people in the market, getting the corporate finance advisors and others to understand that there are options for small businesses, which is not just going to the bank, getting a no and then giving up; there are these other sources of funding.

Q24 Beth Winter: Mr Thorley, your new fund is saying that ESG awareness is embedded into the support to transition to net zero. Can you explain what that means for businesses?

Giles Thorley: Yes. We have been proactively developing our ESG criteria since the inception of the Development Bank, so in addition to the specific green funds what we are talking about is making sure that when we invest businesses we have an understanding of what their activity is, we categorise those activities effectively in terms of their carbon footprint. We are looking at ways to encourage them to invest in solutions to decarbonise or to reduce their carbon footprint, and we can monitor that.

Q25 Beth Winter: Is there a positive response from businesses in terms of the requirements or the expectations?

Giles Thorley: I do not want to steal anybody's thunder, but you will hear from a customer shortly who has taken a loan from us to introduce their own energy production. What we find is that there is a significant amount of understanding within the small businesses about the opportunity to invest. It is not being held back at all.

Q26 Beth Winter: A very quick supplementary—I am very conscious of time—to all of you. How much do you fund less-extractive businesses? I will give you an example. In Cynon Valley we have Vattenfall. It is a



HOUSE OF COMMONS

Swedish company and I recently discovered it extracted £70 million from our community. Wouldn't it be wonderful if our community owned these businesses themselves? Where is that on your radar in terms of funding less-extractive businesses, because historically that has been the experience of particularly South Wales valleys?

Rhian Elston: Was that a development that they had—

Q27 **Beth Winter:** Windfarm developments.

Giles Thorley: Although they have a community fund.

Q28 **Beth Winter:** They have a community fund, but in terms of—

Giles Thorley: One of our staff used to be one of the people who invested in that community fund.

Beth Winter: Yes, it is about £2 million.

Giles Thorley: Exactly.

Rhian Elston: It is a significant scale. So we had an active conversation with Vattenfall and a number of the other developers—

Q29 **Beth Winter:** That is an example. In terms of your vision for Wales, what about the less-extractive businesses being funded so that we create and retain the wealth in our country?

Rhian Elston: Yes, with the specifics on some of those type of projects, the role we think we can play there is become a shareholder in the projects directly, because the local ownership element is something the Welsh Government are looking to support, and we think the Development Bank can play that role working alongside the developers so that we take an actual interest in the project directly and Wales benefits from the profits that project makes.

Q30 **Beth Winter:** What about building of skills and training of local people so that they can develop these projects themselves?

Rhian Elston: Absolutely, and then we can be the people in between effectively, the local community. That is the work we do on the Local Energy Fund; we act as the financier but that helps us to educate the local community group, so they get the benefit. It is scaling that up to look at the larger projects.

Q31 **Beth Winter:** British Business Bank, in terms of less-extractive businesses, do you have any comments?

Ken Cooper: Our fund is aimed at small businesses; small businesses tend to be stickier. Part of the reason we are doing this is to create economic activity that stays in the area, so it has not been an issue for us.

Q32 **Robin Millar:** This is a very current issue. ESG guidelines include diversity and there can be requirements on firms to comply in certain



HOUSE OF COMMONS

ways. Are there diversity requirements or guidelines that are required for companies to access those funds?

Giles Thorley: Not specifically. We do measure all of those criteria so we measure young entrepreneurs, ethnic diversity, and also female entrepreneurs, so we have that data.

Rhian Elston: About 30% of the investments that we do are to female entrepreneurs; there is still more to do but that is a good start and Wales has done quite well on that at the moment. The numbers are improving so that is positive. On the percentage of ethnic minorities that receive funding from us, it is 80%—that is tracking ahead of the general population of Wales at the moment, so that is good—but there is always more we can do in that area. The last one that Giles mentioned is younger entrepreneurs, so around 5% of the deals that we do are for entrepreneurs less than 25 years old.

Q33 **Robin Millar:** To be specific, because there are questions being asked of the FSA about funds and registered companies in England and the UK, are there requirements about LGBTQ+ diversity aspects in accessing the funds?

Giles Thorley: Not specifically, no, but as I said, we do measure many of these criteria.

Q34 **Ruth Jones:** Mr Cooper, in terms of the Investment Fund for Wales, how long will it be open to businesses and how do you evaluate the success of that fund?

Ken Cooper: The fund is intended to invest for five years.

Q35 **Ruth Jones:** Starting when, sorry?

Ken Cooper: It launched in—was it December?

Giles Thorley: December.¹

Ken Cooper: Sorry, we launched a series of funds. It is open for business now; the investment period on each of those funds is five years and as for evaluating success, we will have an independent evaluation done of the investments we have made. They have been published for the midlands and the north and it will be very similar to that in that around the end of the first year we will focus mostly on the customer journey, how people have found the funds, how accessible they have found it, and later on we will go on to measure those economic impacts like growth and jobs.

Q36 **Ruth Jones:** There will be a final summary at the end of the five years, will there?

¹ Following the session, the British Business Bank and Development Bank of Wales clarified that the correct date was 23 November 2023



HOUSE OF COMMONS

Ken Cooper: It will be before that. By the third year I imagine we will be showing the trends. If it goes like it went in the north then we will have produced many jobs, lots of private investment and, importantly, lots of businesses that will survive without ongoing support because that is what we are after.

Q37 **Ben Lake:** Mr Cooper, you mentioned in response to the Chair at the beginning of the session that you are sensing that there is a lot of debt aversion with businesses in Wales. Have any clear reasons for this arisen?

Ken Cooper: I am speculating but, as I say, 20 years ago, when I was doing government equity funding, we heard a lot about equity aversion and not very much about debt aversion. Some of it could be around the financial crisis, some of it could be that people now have a lot of Covid loans and do not want to take on any more debt. It is important for the success of our funds that businesses that can grow do grow and take on the right kind of external finance to do that.

Q38 **Ben Lake:** If I can turn to all three of you. We have heard quite a bit about the different funds and the different work that you do. For the sake of clarity, in terms of your objectives and the work that you do with businesses, how does the work of Development Bank of Wales and the British Business Bank differ? If I could start with Mr Thorley.

Giles Thorley: I do not want to describe the British Business Bank but specifically the Development Bank is a direct lender, with a limited number of exceptions where we need a specialist lender, like for example in the third section that Rhian mentioned. We are directly investing the funds that we receive.

Originally those funds were from the EU, now they are from the Welsh Government, the British Business Bank, the Local Authority Pension Fund, and we invest that money directly in communities, businesses and sectors in Wales, as we described. We are also an agent for the British Business Bank. The British Business Bank has appointed us through a procurement to make investments of the Investment Fund for Wales in Wales. I would say that is the main differential, that the British Business Bank is looking for partners to execute their funding.

Ken Cooper: That is right; we mostly invest through partners because that way we can get a bigger reach and of course boots on the ground. The other rather obvious difference is that we are UK-wide. That allows us—even working with DBW—to share best practice and compare across different parts of the UK.

Q39 **Ben Lake:** Very briefly on the Investment Fund for Wales, I imagine from what you have said that there was a little bit of discussion between the two institutions beforehand. How did the Investment Fund come about and what sort of discussions were there beforehand between the Development Bank of Wales and the British Business Bank?



HOUSE OF COMMONS

Ken Cooper: Some of the context is quite important because we were seeing across the UK the end of the old European structural funds, and so there was going to be a gap in that funding. So our conversations were about how we can work together because we did not want to duplicate activity that DBW is doing, but where the gaps were going to be and how we could work to fill those. It was a very straightforward conversation.

Q40 **Ben Lake:** Has the establishment of the fund changed the relationship in any way between the two institutions?

Giles Thorley: No. To reiterate the point, the Wales Business Fund, which was the last fund funded by EU funding, expired at the end of December of last year. We committed the last funds on 15 December. The new fund from IFW came onstream at the beginning of December so it was almost seamless.

The European Structural Fund criteria were geographic predominantly so there was a bias towards west Wales and the valleys. Whereas the Investment Fund for Wales is split by type, so there are three funds within the IFW, one for microloans, one for a loan fund for SMEs, and then there is an equity fund. In simple terms it filled in the gap from the expiry of the ERDF funding.

Q41 **Chair:** We are coming to the end of this section, and I have a few quick questions to throw in additionally if I may. In terms of regional spread of funds within Wales, are you clear that each part of Wales, Pembrokeshire for example, is getting a fair shout of the funding that you have available? Rhian, you are nodding your head there.

Rhian Elston: Yes, absolutely, it is something we measure. We look at the investment across Wales and we compare that with the SME population in Wales. The majority of what we do is supporting microbusinesses. Over 80% of the investments we make are into microbusinesses. We compare the makeup of Wales with the deals that we are doing, so that is constantly measured. If anybody is looking slightly below we will enhance our business developing and marketing activity.

The key thing is we are spread across Wales. We have the offices across Wales, and we have the individuals based across all of the regions and that is how we can stay in close contact. The other thing that works well for us is there is obviously Business Wales operating in Wales as well and we have a very close relationship with that organisation.

I am confident that if a company comes to us and needs Business Wales's support we have the referral mechanisms in place to go to them and vice versa, so that is more reach covering across Wales. IFW, the debt fund we are delivering, does have a regional element to it as well to make sure we get the spread.

Q42 **Chair:** Mr Cooper, do you go through the same discipline as Development Bank of Wales in terms of measuring the regional spread of funding?



HOUSE OF COMMONS

Ken Cooper: We have also targeted; all of our fund managers have targets to do a certain amount in each region. Those targets do not add up to 100% of the funds because we want the funds to be large enough and flexible enough, but none of our fund managers will be able to meet their targets without going everywhere looking for investment.

Giles Thorley: For your information we have invested in 191 businesses in your constituency and since inception spent £16.4 million.

Chair: Good to hear. Ben, you wanted to jump in?

Q43 **Ben Lake:** Back to this debt aversion; I am wondering whether you have had any feedback from businesses who are concerned perhaps about the rate of interest that you are able to offer. Is that a problem that has been flagged with you by businesses? In other words, that the cost of the finance is too dear for them, I suppose.

Ken Cooper: I think businesses will always balk at the cost of finance. The impact of the sharp rising interest rates will not have come through on our economic analysis yet.

Giles Thorley: Moreover, our loans are fixed rate, so they are fixed for the term of the loan, so for those that took out loans a couple of years ago they are sitting on very low interest rates, and they have not gone up like with the bank base rate.

Rhian Elston: I would say term is more important, that is definitely more the consideration now, are they able to borrow over a term to suit the project, and we can offer loans for 10 years and in some circumstances up to 15 years, so that is more the driver around affordability.

Q44 **Ben Lake:** The fixed rate offer is over that—

Rhian Elston: Not always for that full length but, yes, fixed within some of the shorter lengths as well.

Q45 **Chair:** Some of us met a few days ago with the new leadership team at the Welsh Rugby Union who were telling us about some of the challenges they are facing with the repayment terms for Covid loans that came through the Welsh Government. You obviously talk to a lot of businesses in Wales, many of whom will have Covid loans. Is there a similar legacy burden there that is holding businesses back across Wales because of the interest rates?

Giles Thorley: We do not see that directly. We had our own Covid loan scheme that we introduced at the beginning of April 2020; it was £92 million. They were six-year loans, and that fund is now relatively mature and looks like it will repay close to fully, over 90% will be returned. But obviously when we are looking to invest in a business we are looking at their existing funding as part of that exercise, but it is not something specifically that we see.



HOUSE OF COMMONS

Q46 **Chair:** Are there any sectors in Wales that you specifically will not invest in because of risk or because of reputational profile?

Giles Thorley: There is the usual reputational profile—arms. We—

Q47 **Chair:** What was that?

Giles Thorley: Arms.

Q48 **Chair:** The defence sector.

Giles Thorley: The defence sector, for example. But they are in the terms of reference of our individual funds. We were asked to look at some works on a coal mine, an anthracite mine. We concluded that that was outside our remit on ESG grounds, for example. It was preparatory work for a mine to reopen and we said that the customer needed to spend that money.

Q49 **Chair:** British Business Bank in Wales, is there a similar avoidance of defence related activities?

Ken Cooper: No, we do not want to talk about the restrictions on the fund because we do not want people to think, “I can’t apply for this funding”. The funds are very open. We do require a qualifying trade, so effectively a trading business not a business that shifts money, but mostly without restrictions.

Q50 **Chair:** One of the current streams of work this Committee is engaged in is looking at defence supply chains in Wales. I speak for myself here; I have been incredibly impressed with how diverse the industry is within Wales. Obviously many of these companies are doing a mix of civil and defence-related activity.

We are aware that—how can I put it—there is a kind of element of caution on the part of the Welsh Government about being seen to promote actively this sector. That avoidance of defence-related activity that you have described, Mr Thorley, has that come from the Minister? Has the Minister said to you “Do not invest in defence in Wales”?

Giles Thorley: Apologies. As I said, it is not in all funds, and my colleague has kicked me under the table and said that is not the case in some funds. I would concur with the answer from the British Business Bank that we want to see all businesses and then we can help take a view.

Rhian Elston: The guidance that is in our document is: are there any reputational issues that we need to consider or are there any ESG considerations that we need to bring into mind? So there isn’t a blanket thing that we cannot support the defence sector, and we have supported business in that area. It is about us making an assessment when the deal comes in: what do they do? Are there any concerns? We will sometimes refer that to the Welsh Government, but we have examples where we have supported the supply chain there, because my view is it is still an



HOUSE OF COMMONS

important sector within Wales. There are a number of companies that do very well and employ a lot of people as the result of being within that supply chain, so it is not a no.

Q51 **Chair:** Can the Minister tell you which companies to invest in?

Rhian Elston: No.

Q52 **Chair:** Does the Minister ever make representations to you about specific companies for specific loans?

Rhian Elston: No. We have an independent investment committee. We have an independent board of the Development Bank of Wales.

Q53 **Chair:** Have Welsh Government ministers ever made representations in their constituency capacity to specific companies?

Rhian Elston: No. We will sometimes get asked for information as to what we are doing with a business, so we will often be asked by many people if a company has applied where we are in the process, but never any pressure.

Giles Thorley: For example, in the immediate aftermath of the lockdown I spoke to three members of this Committee about constituent businesses who were seeking Covid loans, to ask what the process was. We get that sort of inquiry from time to time but that is the extent of it.

Q54 **Chair:** It is something we would find incredibly useful, having that link to all of you and able to make representations at least to get a fair hearing for businesses and get the line of communication. On the stats that you referred to about investment in our constituencies, if we were able to get that I think we would all find that helpful.

Giles Thorley: I will write to you afterwards. I know Ms Crosbie was extremely excited. We have invested in 212 businesses in your constituency: £24.9 million in Ynys Môn.

Chair: Thank you. Diolch. That brings this section of today's session to a close. We have slightly overrun, but I think we all agree it has been an incredibly insightful and very useful first part of the session so thank you very much.

Examination of witnesses

Witnesses: Professor Dylan Jones-Evans OBE and Jane Wallace-Jones.

Q55 **Chair:** Good morning. Welcome to this second part of the session of the Welsh Affairs Committee where we are looking at the funding landscape for businesses in Wales and different interventions on the part of the UK and Welsh Governments to support access to finance among businesses in Wales.



I am delighted that for this part of the session we are joined by Professor Dylan Jones-Evans OBE, who is the founder of the National Start-Up Awards, the founder of the UK Fast Growth 50 Index, and an academic and has written and commentated a lot about funding for businesses in Wales over many years—that probably adds age to you, Dylan—but is probably one of the most knowledgeable people that we have in Wales on this subject. We are delighted that you have joined us this morning, Professor.

We are also joined by Jane Wallace-Jones, who is a businesswoman from Wales who has made that journey of founding a business and seeing it grow, founder and CEO of a business called Something Different Wholesale Ltd. Thank you very much both of you for making time to appear in front of us in person. You sat through the first panel, so you have heard all of the evidence from that section. Robin Millar, you will kick us off for this panel.

Robin Millar: Yes. Good morning. Yesterday I had the privilege of bringing to Westminster two ladies, Rhian Owen and Rhian Williams from Siwgr a Sbeis, a business in Llanrwst that employs 23. It is celebrating 35 years today, and I asked them, “Looking back over those 35 years, what are the challenges you have faced?” They talked about scaling up. My first question is: what would you consider the biggest barriers to growth facing small businesses, and particularly scale ups, in Wales and what is being done to alleviate them? Dylan, if I may come to you first please.

Professor Jones-Evans: There are normally three main challenges for businesses scaling up. Not surprisingly, as we are talking about it today, access to finance is key to that. The second one is access to talent: can you get the people you need to help grow your business? The third one is access to markets, particularly international markets. Those tend to be the three main areas that we have experienced.

Like the Chair mentioned, I have been working with high growth businesses in Wales for—unfortunately—25 years, and every year we see those are the main challenges. How do you access that finance and the type of finance in particular? I am sure you will ask questions about this later, but it is this balance between debt and equity finance that is probably the key to many businesses growing. How do you move across that spectrum as the business grows?

In terms of access to talent, if you look at all the surveys that they do of CEOs globally, they say getting access to good, trained people is a big challenge. You probably could have another review on this but there is particularly a role I think for both universities and further education colleges to work more closely with businesses to align to their needs in terms of the type of people that they require to grow.

Q56 Robin Millar: If I could return you to the focus of finance, which is the subject today. Your points about talent are well made and taken. You have argued that the Development Bank should focus on lending to small



businesses. Are you concerned that those small businesses are being overlooked? I am mindful of the rural economy where the market is smaller, so the business tends to be constrained simply by that market.

Professor Jones-Evans: As the previous panel mentioned, if you look at the remit of the Development Bank—we are going back 10 years now to when the then Economy Minister, Mrs Hart, asked me to do the review on access to finance that led to the creation of the Development Bank, which is what the task and finish group that I chaired recommended at the time. On the role of the Development Bank, we looked specifically at where the gaps were, and it is not surprising that the main gaps that we recognised is down to what academics call this liability of newness and smallness.

It is basically the microbusinesses and the new businesses that cannot get access to finance. We recommended at the time—it was one of the major drives—a new development bank, because in every community it tends to be those microbusinesses that glue those communities together, from the valleys to the coastal towns to the middle of rural Wales. It is those small businesses, the ones that employ fewer than 10, that hold those communities together.

If you look at the statistics, it still disappoints me. Seven years on since the creation of the Development Bank, yes, of course the majority of their deals are microbusinesses but only 6% of their funding goes towards supporting microbusinesses in Wales. In terms of new firms, we know that new firms cannot get access to finance. Less than 100 new businesses were supported by the Development Bank last year. Of course they also play an important role as we will hear now about: how do you fund those businesses that require that funding for scaling up? Both start-ups and scale-ups are important to the economy, but you cannot focus on one without focusing on the other.

Q57 Robin Millar: Ms Wallace-Jones, I have some questions for you later in detail about the business, but is there anything there that you could add from your experience perhaps?

Jane Wallace-Jones: I think he summed it up well. Those are the three areas. Two in particular for me has been funding earlier on. I have taken the business from a car boot sale—dare I say here—to a £12 million turnover now. So when you talk about scaling up it was monumentally challenging in the early days.

Now I am lucky enough to have a good management team and I have got there but going from that one person on their own to developing a management team, to how do you structure what I used to call a “real business” was very, very difficult. Very challenging. I did not find a lot of support at that time, although I am going back, I have done this over 35 years. It is getting better and better, much, much better now. If I was starting now I think I would have done it a lot quicker.



HOUSE OF COMMONS

Q58 Robin Millar: Thank you. Professor Jones-Evans, final question on this section please. Would you say that there are differences or specific characteristics of businesses in Wales that distinguish them from the challenges that maybe a business in England would face? Your point about microbusinesses is well made. I think the vast majority of businesses in Wales are microbusinesses, something like 90% to 95% of them by registration. The question is do they face difference and specific challenges by virtue of being in Wales rather than in England, and can we address those?

Professor Jones-Evans: That is a PhD thesis in itself, but I will try to be succinct and not do it in 90,000 words. In the main you would say they face similar problems, though I think there are two geographical areas that face specific issues. The first is rural Wales because clearly you have a distance to the market, you do not have access to the same talent, you do not have access to sometimes the same amount of funding, particularly now as we are seeing the withdrawal of high street banks from many towns across rural Wales. The second one is the south Wales valleys.

If we look at it particularly there is a tendency in Wales, says somebody who lives in Cardiff, for everything to flow down into Cardiff. The future of the valleys has to be in retaining and building those businesses across the south Wales valleys. The challenges they have are similar but, of course, one of the things they have is access to a large market, unlike many businesses in rural Wales.

As someone who has been in this game for 25 years, I believe that there is not that much difference between England and Wales for the majority of businesses, but we need to refocus our efforts in Wales to support rural businesses with specific challenges and, more importantly, to embed entrepreneurship into places such as the south Wales valleys.

Q59 Beth Winter: I find this absolutely fascinating because the work that we commissioned with Bevan Foundation showed that in the long term we have grand visions for the valleys, but in the short term, the clear message was that small businesses have to be supported. At the moment, that support is not there, both financially and in the infrastructure. People find it difficult to access, to get support and so on. We have done research on that as well. Why do you think, Professor Jones-Evans, only 6% is being invested? What are those barriers? That is staggering.

Professor Jones-Evans: It is. These are the statistics I asked the Development Bank to provide for me. You will have to check their veracity because I never had time to do it. However, those 6% of microbusinesses are actually responsible for 42% of all new jobs created. You have to ask: where should the focus be?

When we did the initial strategy for the Development Bank for Mrs Hart, we had a great group. I would like to take all the credit, but I did not,



HOUSE OF COMMONS

unfortunately. We had a fantastic group of different experts. One of them was an expert from the corporate finance world. They said, "If you want a deal, now the banks are withdrawing, should a Development Bank take on those microloans areas?" For every person working in a bank, say, they would deal with 150 to 200 businesses annually. That would be their portfolio. There is scope to do this, but it is different dealing with public money, giving out microloans, compared to a bank doing it. In the old days, they could just sign it off.

Q60 **Beth Winter:** There could be changes to the infrastructure, too.

Professor Jones-Evans: We looked at Microfinance Ireland as a particular example. It has its own microfinance separate to everything else. The emphasis there was, "Let us get the money out to the businesses as quickly and as easily as possible". Clearly, the Development Bank is owned by the Welsh Government. If it is the priority, the Welsh Government could change their remit to say, "We expect you now not to do 6%, but to do 10, 15, or 20%, and to provide the funds to do it".

Q61 **Beth Winter:** Is Microfinance Ireland a good example?

Professor Jones-Evans: Microfinance Ireland is worth looking at. It had a recent review of its activity that should be available.

Q62 **Virginia Crosbie:** Professor Jones-Evans, you had a vision for the Development Bank. Has it delivered on your vision?

Professor Jones-Evans: Yes and no. The Development Bank is something that Wales seriously required. We had a couple of researchers working for us and we estimated the gap was about half a billion pounds, taking into account all the money that was being loaned out to businesses across Wales. We wanted to create something that was unique and special, but more importantly, that would create a competitive advantage for Wales.

We are hitting 25 years of devolution in May. Ten years ago, my aim was: what makes us different to England? What gives us the competitive advantage? I have always been banging on about interest rates and all this stuff, but I truly believe that anything that we can differ to what is being offered in England can make Welsh businesses better. If you make Welsh businesses better and better funded, it gives us a better economy in Wales. I still truly believe that.

I do not know if you will ask questions about the British Business Bank, but we had discussions with the Business Bank 10 years ago as part of our review. We always expected that if the Business Bank were to come to Wales, it would work more closely with the Development Bank.

I know you raised this question, Chair. I am slightly surprised, to be honest with you, that a separate fund has been created. I can see it happening in England. You can see it in the south-west and the north.



HOUSE OF COMMONS

That is fine, but Wales has a devolution settlement, it has a Development Bank, and it has a Welsh Government. Whether or not that funding should have been done, it could have been given directly to the Development Bank and, particularly in the equity field that could have built a strong venture capital function within the Development Bank, which is sorely needed, in my opinion. We have missed that opportunity.

Oddly, now we have two publicly funded organisations competing against each other. I know they say they will not, but they will be because there are not that many deals in Wales. Actually, from the point of view of a business, you would think, "Great". From the point of view of public governance, you have to ask whether that is the right way to manage this.

If you look at south-east Wales, the Cardiff Capital Region has also set up a fund of £50 million. If you live in south-east Wales, you now have three firms, all funded by the public purse, who will be competing. From point of view of a business, you can say, "Fine. I have three funds I can go to". From the point of view of the efficient use of public money, particularly at this time, was that the right thing to do in the Welsh context? I am not saying the same for the rest of the UK, particularly England. Was that the right thing to do?

Q63 **Virginia Crosbie:** Thank you. You mentioned the Welsh Government. How would you characterise the relationship between the Welsh Government and the Development Bank of Wales?

Professor Jones-Evans: Well, they own them.

Q64 **Virginia Crosbie:** Yes, but in the working relationship.

Professor Jones-Evans: Again, at the time, one option we proposed was to bring Business Wales into the Development Bank. I think that there was still a hangover from the Welsh Development Agency day, so the Minister was slightly reticent, shall we say, in putting that forward. We have moved on since then.

One of the models we carefully looked at was the Business Development Bank of Canada. It offers both business services and finance. At the time, it showed us a review of its services, which found that businesses that just got finance grew by, say, 10%. Businesses that got business support grew by 15%. Businesses that got both together grew by about 25%. I cannot remember the data; it is 10 years ago. The point was that if you put those together—and we could ask a real businessperson here what that is—business support and financial support working alongside each other in the same organisation, a company can come to them and say, "I need that".

I remember, Chair, that we had a discussion 10 years ago about the role of Innovate UK. You talked here about how important innovation and R&D are. That is still separate. Only last year the Welsh Government signed an



HOUSE OF COMMONS

MOU with Innovate UK. In this case, I do not blame the Welsh Government, but the fact is that we have all these support mechanisms.

The biggest complaint from business that I get is, "I do not know what is out there and I do not know how to get it". The whole point of getting a development bank was to bring everything in. I could enter through the door, and somebody would say, "Go here, here, and here", or "If you get this funding here, we will go to Innovate UK and we can match it". That still does not happen, and that is a real challenge.

Q65 Virginia Crosbie: To finish off, you mentioned the advisory roles and Business Development Bank in Canada. Whose responsibility is it for that to happen? Is it the Welsh Government or is it the bank? How can we actually get the advisory and financial roles to work together?

Professor Jones-Evans: You have to change the remit, I think. We have two candidates for the leadership of the Labour Party and, unless an earthquake happens, the next First Minister. Of course, one of them has said that he wants to undertake a detailed review of business support in Wales. He will probably come to you and ask for your opinions.

Chair: Here we go again.

Professor Jones-Evans: Seriously, I think that the time has come. It has been 25 years since devolution. We need to relook at this. The world has changed enormously. Never mind the last 25 years, the world has changed enormously in the last 5 years. The way businesses now operate has changed substantially. We can talk about the effect of Covid-19, how it positively helped some businesses and negatively. You look at things such as AI, for example, and we talk about the importance of net zero to the economy. There was a report by CBI that came out this morning—you might have seen it—that said the net zero economy is growing faster than the average economy. It is all these things, I think.

The Welsh Government now need to take a step back and say, "Right. This is what we have." As I said 10 years ago, "Is it fit for purpose?" Ten years ago, I did not think it was. It may be time for somebody else to look to see if what we have is fit for purpose, to make sure that businesses are more competitive and more productive. If those two happen, it benefits the Welsh economy, which, in the end, is what we are all here for.

Beth Winter: Can I just ask a question?

Professor Jones-Evans: I am really sorry about this.

Jane Wallace-Jones: That is all right.

Chair: We will ask you a question in a moment, Jane.

Q66 Beth Winter: Very quickly. Why is there not a single point of access for businesses? Why have we reached this stage where we have all these



HOUSE OF COMMONS

competing bits and bobs?

Professor Jones-Evans: I do not know. It is the art of the civil service, I suppose. I have to be careful how I say it. I really do not know. To me, it just makes common sense, does it not?

Beth Winter: Yes, it does.

Professor Jones-Evans: You go through a door or a portal. Like I say, if you look at it all, there must be an easier way to do this. For example, you mentioned the university spin-outs earlier. Again, that could be another two hours. If you take a university spin-out and it goes to Innovate UK, it can get a grant for £50,000 to get the thing going. The first thing I would do is to look at how I match that. The first thing you would do is say, "Right, we will match it with, say, a microloan from the Development Bank, or is there other funding available?" You want to wrap around that support, so we take full advantage of what is available.

The worst thing about this is that—and it is the same figure we discussed because nothing has changed much—Wales has only had about 2.6% of all Innovate UK funding since it started. You say, "Okay, 2.6% is not bad for Wales". Let us Barnettise that. If we Barnettise that, we are talking about hundreds of millions of lost income to Welsh businesses. I think you raised this, Chair, when you were Secretary of State for Wales. I raised this in *Western Mail* as I normally do. There was a response from Innovate UK, if I remember correctly, where the deputy director said, "The problem with Wales is that it did not have good enough businesses for Innovate UK funding". Of course we have good enough businesses. It is just that the process is difficult. I think that if we reviewed it all, if you are doing things for Wales, it is not just about what the Welsh Government offers. More importantly, it is about the massive amount of funding that is available from the UK Government that, for some reason, isn't aligned to what we are doing in Wales.

Q67 **Robin Millar:** On that point, this is fascinating. This feels like an efficiency versus effectiveness argument—the efficiency of a single point of contact and the effectiveness of what works for Wales. The United Kingdom Internal Market Act and measures were put in place, first, because the Welsh economy has done nothing in 25 years. Secondly, the prospects were of an entrenchment and a separation away from the rest of the UK economy.

As a result of that, we have now been able to make these direct investments into Wales. We see that in north Wales, for example, through the Economic Ambition Board. To this point, the first question I had was, with the reality of a freeport or two in Wales—one in Anglesey—an investment zone in Wrexham and £1 billion for the railway line, this has to make the regional competitiveness of north Wales as a bumper investment take a massive step up, surely.



HOUSE OF COMMONS

Professor Jones-Evans: To an extent, yes, but, like I said, it has to align with everything else. I think that the time has come that we should not have UK Government initiatives working against Welsh Government initiatives. They must work more closely and be more aligned for the benefit of Wales and the Welsh economy. We need to look carefully.

Remember the term was “initiative-itis”. It is something that Wales was always very good at. If there was something new, we will do another initiative. All of a sudden, you find out there are ten initiatives trying to deal with the same problem and none of them talking to each other. With respect, Robin, that is absolutely critical. For example, when the freeport comes there, the first conversation I would have is with the Development Bank or the British Business Bank to say, “What will you do to help us do this?” That is the first conversation I would have.

When you talk about national initiatives, this morning, a great Welsh businesswoman, Anne Boden, is releasing the Women-Led High-Growth Enterprise Taskforce report. The Welsh Government, the Development Bank and Business Wales should look at that report and say, “What will we do to implement that in Wales?” It is about creating more female high-growth entrepreneurs. I have mentioned it now so they probably will, but they probably would not have looked at that and said, “What can we take from that?” I always feel like this. Every time we have a budget—and we have a budget next week—there are always advantages for Wales, but we do not take advantage of them.

Q68 Robin Millar: The examples you give are very important. The point I would simply make is that when we asked the First Minister why the Welsh Government’s response to that investment in north Wales was to say it is not a priority that straight away rings alarm bells and justifies the UK Government’s interest in investing directly in north Wales. On that point, and bringing it back to business funding, do you think that the British Business Bank’s investment fund for Wales makes a significant difference to the work of the Development Bank of Wales?

Professor Jones-Evans: It will be very difficult now for the Development Bank of Wales to set up its own venture fund, I think, because you already have it there. I am surprised it has not happened. One of the recommendations we made in the report was to set up a venture fund. I remember one of the panellists in the task and finish group talked to the Development Bank in 2014 about creating a venture fund for Wales and it was turned down. It has taken a decade to get it on the table.

I think that it will limit what the Development Bank can do in this area. It was always important for the development. If you look at the statistics, which I can send, you will find that in the equity investments it has made, for every pound it invests, it brings in £3.20. That makes a difference because you want to track the private sector investment. That is what the Development Bank is doing exceptionally well. Those are normal equity investments. We are talking about a very different vehicle



HOUSE OF COMMONS

because most of these will be start-ups and scale-ups. They can really make a difference in Wales.

Q69 Robin Millar: On that point, I have one last question for you and then I have some questions, if I may, for Ms Wallace-Jones. Is it getting easier for businesses to access capital and investments in Wales? Do they really care about a distinction?

Professor Jones-Evans: When we did the UK StartUp Awards, we did a report and interviewed 219 start-ups with Starling Bank as part of our process. Interestingly enough, we found that 89% of the most ambitious start-ups in the UK, including some from Wales, are self-funded. They rely on the founders' funding. This is not surprising.

We also asked the question, "What is the biggest business support challenge?" and 62% said access to finance was the biggest support challenge. When you start a business, you have to rely on family, friends and fools originally. As the business grows and needs capital, the question is: are there businesses out there that cannot get access to that capital? If there are, surely that is the role of the Development Bank, not to throw the money away, but to look at how it can help those businesses to get access to that capital.

Q70 Robin Millar: Thank you. Ms Wallace-Jones, at the end of the day, the business perspective is the deciding one. We can argue and talk about different structures and initiatives from Government, but it is actually the business perspective. What impact do you think the Development Bank of Wales funding had on you as a business?

Jane Wallace-Jones: I have direct comparisons there because I have had funding from all directions. To stray off the question slightly, a good point is actually finding out what funding is out there. That is a good point because it is difficult to find it out. It comes from all different channels, and you have to work quite hard. I have been in business for 40 years and I still sometimes struggle to find out what funding is available.

To come back to your point, I have direct comparisons. I have the high street bank. I have been with NatWest for 45 years as a business customer. It has funded me on various occasions. I have had private funding through Business Wales primarily. I have been quite close to Business Wales through my journey, which has been good. As a businessperson, I do not always know where that funding comes from, to be honest. It is just, "This is available for this sector". I have had Development Bank of Wales and Finance Wales earlier. It is very different.

With high street banks—NatWest is my only experience—and private funding, it is a tick-box exercise. It is a document. It is, "There is funding for this particular thing. Okay. That is something I have a project on. I can go for that because that is specifically what it is for". I tick the boxes,



HOUSE OF COMMONS

and usually in a short amount of time, "Do I fit the criteria? Are my accounts exactly what they want them to be? Yes, I have the funding or no, I do not".

The Development Bank of Wales is a completely different animal. You have somebody to talk to. I may add that with NatWest, I have £1.4 million worth of debt at the moment. My relationship manager changed halfway through last year and I have never met this new one. That is incredible. That is the contact that I have with the high street banks. I have none with private funding at all. It is done through forms.

I have had three rounds of funding from the Development Bank of Wales. I had an original growth fund, which was primarily put into the company for stock to grow the business because we were growing so fast. Then I had a property fund. NatWest did the bulk of the property, but they would only do up to 65%. I put in £800,000 and there was a gap of £300,000. I would not have bought the property. I went to the Development Bank of Wales, and I said, "I have this gap. I have no more cash available. Could you do that?" It did gap funding for me, which enabled me to buy the property during Covid-19, which was amazing.

In the green loan, I did a similar thing. I have a big warehouse. I wanted to put solar on the roof. It was when the energy prices were very high. I went to NatWest, who put me on to Lombard, and it said, "Yes, we will fund you. We will give you a seven-year loan at 7%". I thought, "Okay, the numbers work fine now", because you were getting 60p per kilowatt at that time, which was extraordinary. I thought, "Hang on, let's look at the history of energy". You could see it was an extremely volatile market. It was never going to stay at 60p. I thought, "What do I do? No, with the war, I will not do it".

I just happened to be talking to the Development Bank of Wales. I did not think that it would fund that kind of operation. I was looking at an MBO with it. I just happened to drop it into the conversation that I was not going to do this solar loan. It said, "We may be able to do something". I said, "Really? It is a £1.2 million investment. The only way I could do this is over a 15-year period". It was almost a throwaway conversation because it was never going to happen, and it actually did it. It came back to me a few weeks later and said, "Yes. We can do this. We can do it over 15 years". It gave me a competitive rate of interest.

Of course, the worst-case scenario has happened, as I am sure we are all aware. It is no long 60p, it is 5p. It is a very different income now than I thought I would have had. It is worse than the worst-case scenario, and I am still in a fairly okay place because of their funding. I would not have done that at all. That shows that presumably we want generators. We are generating 1 million KW of energy a year, so surely that is valuable.

Q71 Robin Millar: If I may interrupt you, you describe quite a varied landscape of funding. To return to the efficiency versus effectiveness point earlier, are you saying that that is just how you found it, or are you



saying that there is strength in diverse types of funds and different sources of funding?

Jane Wallace-Jones: To be honest, if you are a business and you want to not only survive but to thrive, you have to be diverse. It is really tough. If you just stay there and do business as normal, you will wither and die. You have to constantly look for new avenues in which you can take your business.

There is another challenge—the knowledge, which is exactly what you are saying. It is funding, but it is also knowledge because there is only so much knowledge that I have and that my team has. You need the funding, but you also need the little shining lights up there. We are investing in technology. I know very little about technology. All I know is that I need to invest in it, and I need to be more efficient.

Again, here is this argument you discussed earlier about counting output by the number of jobs. My initiative this year is not to take on too many more people that will not go down well in the numbers, but it is about being more efficient and investing in technology and AI where I can, to make the best out of the people that I have. I want to grow, and I want to take on people, but I want to be a lot more efficient in the way that I am working. The way that we are counting numbers at the moment has to be considered. I might not tick the boxes for everybody. I am on the Accelerated Growth Programme. I have been there since day one and it has been seven years now. I know a big strong push for it is how many jobs it is creating. I was speaking to it last week and saying, “Actually, my initiative now is technology. What support do you have on technology?” It did not have anybody.

Q72 Robin Millar: A final point, if I may. To reflect back to you, you seem to suggest that there is a lot of nuance in the decisions you make and the challenges you face. It seems to me that the balance of relationship with people who can help you explore that plus the speed of access of a tick-box exercise are both important to you as a business. Is that a fair summary of what you are saying?

Jane Wallace-Jones: It is fair. As long as where I want to take the business fits in with the available funding, that is absolutely fine. When you want to diversify, the Development Bank of Wales does not have a pool of funding specifically aimed at that. It is much more flexible in what you can actually invest in, and you get somebody to talk to.

Robin Millar: Thank you, and congratulations on the business.

Q73 Ruth Jones: Ms Wallace-Jones, you have already highlighted some of the issues you have experienced along your journey. You have worked with both the Development Bank of Wales and Business Wales. I wonder how you can compare and contrast the help and support you have had from them.



HOUSE OF COMMONS

Jane Wallace-Jones: Business Wales fits into the tick-box exercise usually. From a funding perspective, there are specific pools of funding for which you are either eligible for or not. I may be talking out of turn here, but from a support point of view, it seems to me that its focus is on smaller businesses, which was great when I was smaller. As I am getting bigger and more experienced, I find that if I go to its meetings and network with it, I am actually giving the support rather than taking it.

I find that I have slightly outgrown it. Perhaps that is not a good thing to say but it is more angled at the start-ups. There is potentially a bit of a gap. I am on the Accelerated Growth Programme, which is an arm of it, so I suppose that is what they have developed for bigger, faster-growth companies, and it has put in the consultants for us, I suppose.

Q74 **Ruth Jones:** That makes sense. You clearly articulated in previous answers about financial support and advisory support and how they do not necessarily come together. As a business, how would you want to be communicated with by these people? You have already mentioned how difficult it is to work out which track you are on.

Jane Wallace-Jones: From a support perspective, I do not know if it would be possible, but it would be nice to have a pool or database of people across the UK. It does not have to be Wales. We can travel and there is Zoom. We have settled. We have a good management team. Business as usual is absolutely fine, but we have various projects and what we need is that little spark of knowledge, that extra little bit. We are looking at exporting into the EU now seamlessly. It is actually a difficult area.

I would love to have a database of somebody that says, "Right, exports. Okay". B2B is quite a different animal to B2C. I am in the B2B game. Where could I go? Who could I speak to? There will be people out there who know how to do this. We have been struggling over the last six months with the expertise of how to do it, but there will be somebody there who can do it and who has done it well. Where are they? How can I speak to them? I think that if you could join up and have this network of good people across the UK that we could access that would be absolutely amazing.

Ruth Jones: I hope somebody is listening to that. Thank you very much. Back to the Chair.

Q75 **Chair:** We intend to do a session with the export team that focuses on Welsh businesses at the Department for Business and Trade. We might get some answers for you to feed back. We have slightly overrun, and I am sure we could continue with a great many more questions, but it has been really helpful and insightful.

Thank you again for joining us this morning to be part of the discussion. We wish you every success, Jane. It has been a fairly inspirational journey, reading your background. Professor Jones-Evans, in his remarks,



HOUSE OF COMMONS

referred to the aspiration of seeing more women leading and growing businesses in Wales. Do you get called on, not to give lectures, but to talk to and inspire other women in Wales who are setting out on the business journey?

Jane Wallace-Jones: I do, but I am very inclusive of men too. It is probably a controversial thing to say, but we need to have a level playing field. We all need to lead businesses by merit. It is important that we listen to everyone. Sometimes I come in on women-only groups and think, "I would really like my male managers to listen to this". We have more or less a 50-50 balance and we are quite diverse in all areas, but it is by merit. That is important.

Q76 **Chair:** You talked about being with NatWest—I think it was—for the last 40 plus years as a business customer. Is it always with the same branch? Or has your local branch closed in that time?

Jane Wallace-Jones: Most of them have closed, yes. It keeps moving. To be honest, I see very few people. I am old enough to have actually had a bank manager. Years ago, I had a personal bank manager. They went completely. I did not have any support at all because I was a small business, and as I have grown, I have a relationship manager now. You do not really have a bank anymore. Do you know what I mean? You do not have a place to go to. It is all done online.

Q77 **Chair:** A few weeks ago, one of the main high street banks told me that its future model in Wales is six branches only. It said that every other bank will go the same way. Professor Jones-Evans, does that scenario fill you with fear for small businesses starting out? Or is what Jane Wallace-Jones is saying correct: that people can just go online and find the answers they need?

Professor Jones-Evans: Many small businesses, particularly those starting up in artisan trades, will deal in cash. It will be an issue. One potential solution to this is getting the credit unions to work more closely where there is that gap. There have always been promises about bringing these hubs into different places. Credit unions are already there doing this sort of work and can take money as well as lend money. There is a network of credit unions already out there that will be useful.

It is fascinating because still about 80% to 85% of businesses will never change their bank. This is fascinating when you think that there is allegedly competition there. We found that an increasing number, particularly start-ups, will go to the new challenger banks because of the ease of setting up an account.

When we did our survey of the StartUp Award companies, 30%-odd were with Starling. It was the leading bank for start-up businesses. NatWest was second. We found that out of the top 10, five were challenger banks. The challenger banks are making it easier to open an account. I can do it on my phone now waiting for the next question. I think that will make it



HOUSE OF COMMONS

easier. However, the problem is how to access funding. Starling is not yet set up to provide funding for a growing business. That is why the role of organisations such as the Development Bank is important, particularly for start-ups.

Chair: Thank you very much. As I said, we could continue this conversation for much longer, because it is something we all have an interest in with respect to our own constituencies and what we see in our local communities. Thank you again. We may follow up with some questions in writing, depending on our considerations after this and the next session we are planning to do. Thank you again. I bring this meeting to a close.